

In the Matter of the Application of )  
Kansas Gas Service, a Division of )  
ONE Gas, Inc. for Adjustment of its ) Docket No.18-KGSG-560-RTS  
Natural Gas Rates in the State of )  
Kansas )

TESTIMONY IN SUPPORT OF THE  
PARTIAL UNANIMOUS SETTLEMENT AGREEMENT

PREPARED BY

ROBERT H. GLASS, PHD

UTILITIES DIVISION

KANSAS CORPORATION COMMISSION

December 4, 2018

**PUBLIC VERSION**

**\*■\* Denotes Confidential Information**

**I. INTRODUCTION**

**Qualifications**

**Q. What is your name?**

**A.** Robert H. Glass.

**Q. By whom and in what capacity are you employed?**

**A.** The Kansas Corporation Commission (KCC) employs me as the Chief of Economics and Rates.

**Q. What is your business address?**

**A.** 1500 SW Arrowhead Road, Topeka, Kansas, 66604-4027.

**Q. Are you the same Robert H. Glass who, in this Docket, filed Direct Testimony on October 29, 2018?**

**A.** Yes.

**Organization**

**Q. What is the purpose of your testimony?**

**A.** I am testifying in Support of the Partial Unanimous Settlement Agreement (Settlement or Settlement Agreement) submitted by Staff of the State Corporation Commission of the State of Kansas (Staff), Kansas Gas Service, a Division of ONE Gas, Inc. (KGS), the Citizens' Utility Ratepayer Board (CURB) and WoodRiver Energy, LLC, and Kansas Farm Bureau and Kansas Corn Growers Association (referred to collectively as the "Signatories" or the "Parties").

**Q. How is your testimony structured?**

**A.** I discuss the class revenue allocation, rate design, class cost of service (CCOS), and weather normalization issues in the Settlement Agreement. Also, I will perform the Commission's Standard of Review (the Balancing Test) for the issues I discuss.

## II. ANALYSIS

## Class Revenue Allocation and Rate Design

### *Class Revenue Allocation*

**Q. How was the revenue requirement allocated among customer classes?**

A. The proposed Settlement class allocation of the increase in revenue requirement is shown in Appendix B of the Settlement Agreement and is reproduced below as Column (9) in Table 1. The Settlement allocation has similar proportions to the allocation proposed by Staff with an exceptions: Irrigation customers got less of an increase than Staff proposed, and the reduction to the irrigators was transferred to the Large General Service and Large General Service Transportation.

## Rate Design

**Q. Why did the Residential Class get such a large portion of the increase in revenue requirement?**

A. The Residential Class received about 87.6% of the total increase, in part, because it is the largest rate class. The Residential Class contains 91.3% of KGS's customers and it provided 73.2% of KGS's revenue with the current rates. In addition, the results of the class cost of service studies filed in this docket all indicate that the Residential Class has not been providing enough revenue to recover the costs they cause.<sup>1</sup> Thus, the revenue increase for the Residential Customer Class was 9.0% compared to the overall system wide revenue increase of 7.5%.

<sup>1</sup> For example, see Table 3 in my Direct Testimony, p. 17.

1

**Table 1**

<b>Proposed Proof of Revenue/Rate Design</b>										
Class	Customers	MCF	Current Service Charge	Current Delivery Charge	Revenues at Current Rates	Proposed Service Charge	Proposed Delivery Charge	Proposed Increase	Proposed Revenues	% Increase Revenues
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Residential	583,049	41,430,893	\$ 16.70	\$ 2.2316	\$ 209,300,263	\$ 18.70	\$ 2.3485	\$ 18,836,455	\$ 228,136,718	9.0%
General Service - Small	36,896	3,781,870	\$ 28.65	\$ 2.3472	\$ 21,561,638	\$ 28.65	\$ 2.3472	\$ -	\$ 21,561,638	0.0%
General Service - Large	11,621	5,714,601	\$ 36.00	\$ 1.7810	\$ 15,197,959	\$ 45.00	\$ 1.8145	\$ 1,446,503	\$ 16,644,462	9.5%
General Service - Transport Eligible	500	1,113,229	\$ 60.00	\$ 1.5293	\$ 2,062,306	\$ 60.00	\$ 1.8177	\$ 321,055	\$ 2,383,361	15.6%
Small Generator Service	676	12,622	\$ 52.20	\$ 0.6427	\$ 431,454	\$ 52.20	\$ 0.6427	\$ -	\$ 431,454	0.0%
Irrigation Sales	214	141,754	\$ 36.00	\$ 1.6819	\$ 330,821	\$ 36.00	\$ 1.6890	\$ 1,006	\$ 331,827	0.3%
Kansas Gas Supply	1	21,846	\$ 350.00	\$ 0.8673	\$ 23,147	\$ 360.00	\$ 0.9574	\$ 2,088	\$ 25,235	9.0%
Sales for Resale	*									*
Sales for Resale - BH	*									*
Small Transport k-System	3,497	6,151,668	\$ 60.00	\$ 1.4598	\$ 11,498,231	\$ 60.00	\$ 1.4598	\$ -	\$ 11,498,231	0.0%
Small Transport t-System	1,211	1,862,195	\$ 60.00	\$ 1.9170	\$ 4,441,906	\$ 60.00	\$ 1.9170	\$ -	\$ 4,441,906	0.0%
CNG k-System	9	191,059	\$ 60.00	\$ 0.8199	\$ 163,179	\$ 60.00	\$ 0.8199	\$ -	\$ 163,179	0.0%
CNG t-System	2	67,350	\$ 60.00	\$ 0.8199	\$ 56,990	\$ 70.00	\$ 0.9674	\$ 10,229	\$ 67,219	17.9%
Irrigation Transport	513	843,484	\$ 36.00	\$ 1.6819	\$ 1,640,105	\$ 38.00	\$ 1.7452	\$ 65,695	\$ 1,705,800	4.0%
Large Transport k - Tier 1	214	1,154,072	\$ 208.00	\$ 0.8714	\$ 1,540,207	\$ 260.00	\$ 0.9023	\$ 169,298	\$ 1,709,505	11.0%
Large Transport k - Tier 2	94	1,491,344	\$ 252.00	\$ 0.8714	\$ 1,582,364	\$ 295.00	\$ 0.9023	\$ 94,339	\$ 1,676,703	6.0%
Large Transport k - Tier 3	45	1,360,883	\$ 323.00	\$ 0.8714	\$ 1,358,792	\$ 340.00	\$ 0.9023	\$ 51,152	\$ 1,409,945	3.8%
Large Transport k - Tier 4	61	6,922,224	\$ 392.00	\$ 0.8714	\$ 6,318,113	\$ 400.00	\$ 0.9023	\$ 219,735	\$ 6,537,849	3.5%
Large Transport t - Tier 1	43	304,861	\$ 288.00	\$ 1.3103	\$ 548,658	\$ 360.00	\$ 1.3521	\$ 50,043	\$ 598,701	9.1%
Large Transport t - Tier 2	31	464,028	\$ 367.00	\$ 1.3103	\$ 742,844	\$ 430.00	\$ 1.3521	\$ 42,541	\$ 785,386	5.7%
Large Transport t - Tier 3	14	381,651	\$ 495.00	\$ 1.3103	\$ 580,583	\$ 520.00	\$ 1.3521	\$ 20,019	\$ 600,602	3.4%
Large Transport t - Tier 4	32	3,983,601	\$ 621.00	\$ 1.3103	\$ 5,457,969	\$ 630.00	\$ 1.3521	\$ 169,968	\$ 5,627,937	3.1%
Wholesale Transport	27	916,740	\$ 85.00	\$ 1.2497	\$ 1,173,190	\$ 85.00	\$ 1.2497	\$ -	\$ 1,173,190	0.0%
	638,757	78,382,787			\$ 286,108,376			\$ 21,500,127	\$ 307,608,504	7.515%

2

1   **Q.    How was the rate design changed in order to recover more revenue from the**  
2   **Residential Class?**

3   A.    The service charge (the fixed monthly charge) was increased 12.0% from \$16.70  
4       to \$18.70 per month, and the delivery charge (the volumetric charge) was increased  
5       5.2% from \$2.2316 to \$2.3485 per Mcf.<sup>2</sup>

6           The proposed service charge of \$18.70 was a compromise between KGS,  
7       CURB, and Staff. KGS proposed a service charge of \$22.66 because nearly all of  
8       its costs are fixed. CURB argued for no increase in the service charge based on its  
9       incremental cost analysis. Staff agreed that nearly all of KGS's costs are fixed, but  
10      argued that gradualism precludes increasing the service charge 35.7%. The  
11      negotiated agreement was an increase of the service charge to \$18.70. After  
12      deciding on the service charge and the increased revenue allocation, the calculation  
13      of the delivery charge is simply determining what is necessary to recover the  
14      necessary revenue.

15           **Class Cost of Service and the Classification of Distribution Mains**

16   **Q.    Why was the classification of distribution of mains an issue in this docket?**

17   A.    The classification of mains is one of the most controversial natural gas CCOS  
18       issues. In Staff's CCOS, distribution mains represented 45.1% of distribution rate  
19       base. And to further illustrate the importance of the classification of distribution  
20       mains in this docket, the primary reason for the difference between the parties'  
21       allocation of rate base was the classification of distribution mains plant.

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<sup>2</sup> A dollar per Mcf divided by 1.037 equals a dollar per MMBtu. Mcf stands for one thousand cubic feet of natural gas while MMBtu stands for one million British thermal units.

1    **Q.     What is the dispute about the classification of mains?**

2    A.     Basically, the dispute boils down to two questions: (1) How much of the  
3           distribution mains should be classified as caused by the number of customers and  
4           how much should be classified as caused by demand? and (2) Should the portion  
5           of distribution mains that is classified as caused by demand be allocated based on  
6           coincidental peak or non-coincidental peak? The two classes impacted the most by  
7           this dispute are the Residential Class and the Irrigation Classes.

8    **Q.     How did the Settlement resolve the dispute?**

9    A.     KGS has agreed “to evaluate its allocation of costs to irrigation customers and  
10          propose modifications to its cost of service allocation study, as necessary, to  
11          reasonably account for any changes indicated by that evaluation.”<sup>3</sup> However, no  
12          party has given up its right to contest any CCOS in the next rate case.

13                           **Weather Normalization and WNA Factor**

14   **Q.     Why is weather normalization important?**

15   A.     Staff’s weather normalization adjustment added \$15,590,481 to KGS’s test year  
16          revenues while KGS’s weather normalization adjustment added only \$12,664,050  
17          to the test year revenues. Further, the weather normalization adjustment changes  
18          the volumetric billing determinants which feeds-into the Proof of Revenue. Finally,  
19          KGS has a WNA (weather normalization adjustment) factor which adjusts its PGA  
20          collections for abnormal weather.

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<sup>3</sup> Partial Unanimous Settlement Agreement, ¶ 20.

1   **Q.    What was the agreement in the Settlement about weather normalization and**  
2   **the WNA factor?**

3    A.    First, KGS proposed in direct testimony and Staff agreed in its direct testimony that  
4           weather normalization should be extended to the small transport class. Both KGS  
5           and Staff found the small transport class’s volumetric usage was weather sensitive.  
6           Second, without agreeing to any specific methodology, “For the purpose of  
7           calculating the WNAR factor, the Parties agree to use Staff’s Heating Sensitivity  
8           Factors [and] Staff’s Heating Degree Day Normals[.]”<sup>4</sup> This means that Staff’s  
9           estimation of normal weather and the effect of abnormal weather on usage will be  
10          used to calculate the WNA factor till the next rate case.

11

12           **The Commission’s Standard of Review for Settlement Agreements**

13    *Balancing Test*

14   **Q.    Are you aware of the balancing test set forth by the Kansas Supreme Court for**  
15   **determining whether rates are “just and reasonable?”**

16    A.    Yes, the Kansas Supreme Court has stated: The leading cases in this area clearly  
17           indicate that the goal should be a rate fixed within the ‘zone of reasonableness’ after  
18           the application of a balancing test in which the interests of all concerned parties are  
19           considered. In rate-making cases, the parties whose interests must be considered  
20           and balanced are: (1) The utility's investors vs. the ratepayers; (2) the present  
21           ratepayers vs. the future ratepayers; and (3) the public interest.

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<sup>4</sup> Partial Unanimous Settlement Agreement, ¶ 21.

1     **Q. Have you performed the requisite balancing test?**

2     A.     Yes. As explained below, I performed the requisite balancing test, as it pertains to  
3             Staff's proposed rate design.

4     ***Investors vs. Ratepayers***

5             Ratepayers benefit from the utilities' continuous, reliable operation. Moreover, the  
6             proposed rate design provides an opportunity for the utility to recover revenues  
7             necessary to cover its costs. Thus, both ratepayers and investors are helped by the  
8             recovery of the revenue requirement which means this balancing test is met.

9     ***Present vs. Future Ratepayers***

10            This balancing factor is commonly referred to as an intergenerational conflict  
11            between ratepayers. If one set of ratepayers is paying for costs that do not  
12            adequately represent the service received by those ratepayers, then an  
13            intergenerational subsidy can occur. A good example of an intergenerational  
14            subsidy is the situation regarding the benefits that the first generation of social  
15            security recipients received relative to the payments they made into the system. In  
16            the electric utility industry, an example would be if the costs of decommissioning  
17            a power plant were back-loaded onto future generations.

18            Staff is unaware of any potential intergenerational conflict in the Settlement  
19            Agreement discussion of revenue allocation, rate design, class cost of service, or  
20            weather normalization.

21     ***The Public Interest***

22            The public interest is served when the utility remains a healthy, viable business,  
23            able to provide reliable service. The proposed rate design provides an opportunity

3 **III. RECOMMENDATION**

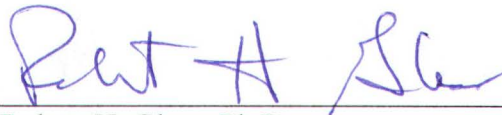
12 Q. Does this conclude your testimony?

13 A. Yes, thank you.

STATE OF KANSAS                     )  
  ) ss.  
COUNTY OF SHAWNEE            )

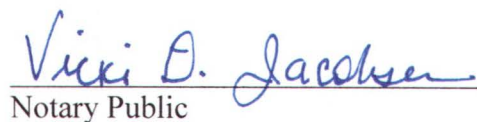
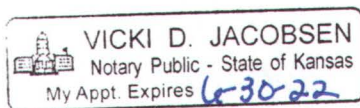
**VERIFICATION**

Robert H. Glass, Ph.D., being duly sworn upon his oath deposes and states that he is the Chief of Economic Policy and Planning for the Utilities Division of the Kansas Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Testimony in Support of Partial Non-Unanimous Settlement Agreement*, and attests that the statements contained therein are true and correct to the best of his knowledge, information and belief.



Robert H. Glass, Ph.D.  
Chief of Economic Policy and Planning  
State Corporation Commission of the  
State of Kansas

Subscribed and sworn to before me this 7<sup>th</sup> day of December, 2018.



Notary Public

My Appointment Expires: 6-30-22

## **CERTIFICATE OF SERVICE**

18-KGSG-560-RTS

I, the undersigned, certify that a true and correct copy of the above and foregoing Testimony of Robert H. Glass on Partial Nonunanimous Settlement Agreement was served via electronic service this 7th day of December, 2018, to the following.

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18-KGSG-560-RTS

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